

**DIRECT TESTIMONY AND EXHIBITS OF**

**DANIEL F. SULLIVAN**

**ON BEHALF OF**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2022-4-G**

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

2 A. My name is Daniel F. Sullivan. My business address is 1401 Main Street, Suite  
3 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of  
4 Regulatory Staff (“ORS”) as the Director of the Audit Department.

5 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

6 A. I received a Bachelor of Science Degree in Business Administration with a major  
7 in Accounting from the University of South Carolina in December 1998. In February 2005,  
8 I began my employment with ORS and since have participated in cases dealing with the  
9 regulation of telecommunications, natural gas, electric, radioactive waste disposal, water  
10 and wastewater utilities.

11 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE**  
12 **COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?**

13 A. Yes. I have previously testified before the Commission.

14 **Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

15 A. ORS represents the public interest as defined by the South Carolina General  
16 Assembly in S.C. Code Ann. § 58-4-10 as:

17 [T]he concerns of the using and consuming public with respect to public  
18 utility services, regardless of the class of customer, and preservation of

1 continued investment in and maintenance of utility facilities so as to provide  
2 reliable and high-quality utility services.

3 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
4 **PROCEEDING AND HOW DOES YOUR DIRECT TESTIMONY REPRESENT**  
5 **THE PUBLIC INTEREST?**

6 A. The purpose of my direct testimony is to set forth findings resulting from ORS's  
7 examination of Piedmont Natural Gas Company, Inc.'s ("Piedmont" or the "Company")  
8 purchased gas deferred account, storage inventory activity, and hedging account activity,  
9 for the period April 2021 through March 2022 ("Review Period"). By examining the books  
10 and records to ensure they comply with applicable Commission Orders and verifying the  
11 (over)/under-recovery balance in the purchased gas deferred account is stated accurately,  
12 my direct testimony promotes the public interest.

13 **Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?**

14 A. Yes. The review to which I testify was performed by me or under my supervision.

15 **Q. IN CONNECTION WITH YOUR DIRECT TESTIMONY, DID YOU PREPARE OR**  
16 **CAUSE TO BE PREPARED ANY EXHIBITS?**

17 A. Yes, the Audit Department prepared Exhibit DFS-1, titled "Purchased Gas Deferred  
18 Account Analysis Summary," Exhibit DFS-2, titled "Storage Inventory Activity," and  
19 Exhibit DFS-3, titled "Hedging Account Activity," in connection with this testimony.

20 **Q. UNDER WHAT AUTHORITY DOES ORS MONITOR THE ACTIVITY IN**  
21 **PIEDMONT'S PURCHASED GAS DEFERRED ACCOUNT?**

22 A. In Order No. 88-294 dated April 16, 1988, the Commission found that:

- 23 (1) A true-up for differences between billed and filed rates is appropriate and  
24 necessary to assure that Piedmont's customers pay no more than Piedmont's  
25 actual cost of gas.

(2) A true-up of demand charges for changes in sales volumes is appropriate and necessary to assure that Piedmont's customers pay no more than Piedmont's actual cost of gas.

(3) The Company is to maintain an account reflecting its gas costs each month, the amount of gas costs recovered each month, and amounts deferred from month to month. The Company is to file with the Commission a report on a monthly basis showing the status of this purchased gas deferred account.

Additionally, with the issuance of Commission Order No. 2002-223 dated March 26, 2002, the Company is required to file regular reports on the status of the hedging program and the results of its hedging activities.

**Q. HAS ORS EXAMINED THE COMPANY'S PURCHASED GAS DEFERRED ACCOUNT?**

A. Yes. ORS has examined the activities included in the purchased gas deferred account. In addition, ORS has examined the Company's gas storage inventory activity and hedging account activity for the Review Period.

**Q. WHAT IS INCLUDED IN EXHIBIT DFS-1, PURCHASED GAS DEFERRED ACCOUNT ANALYSIS SUMMARY?**

A. Exhibit DFS-1 presents, for each month of the Review Period under examination, the components which comprise the Company's (over)/under collection in the purchased gas deferred account. These components are:

**Commodity True-Up** – These amounts represent the difference in the Company's actual gas costs on a monthly basis as compared to the benchmark cost of gas included in the Company's Gas Cost Recovery Mechanism ("GCRM") filings during the Review Period. The Company's benchmark cost of gas at the beginning of the Review Period was \$2.00 per dekatherm, established as a result of the Company filing GCRM #151, which became effective the first billing cycle in January 2020. The Company's benchmark cost

1 of gas at the end of the Review Period was \$4.00 per dekatherm, established as a result of  
2 the Company filing GCRM #154, which became effective the first billing cycle in January  
3 2022. In accordance with Commission Order No. 2010-250 dated March 30, 2010, the  
4 Company includes unbilled volumes in its commodity true-up calculations to achieve a  
5 better matching of gas cost collections versus actual gas costs in the months they occur.  
6 South Carolina's portion of commodity true-up for the Review Period decreased the over-  
7 collection by \$3,925,890.

8 **Demand True-Up** – These amounts represent the (over)/under collection of  
9 demand charges incurred by the Company as compared to demand charges billed and  
10 collected from customers. In accordance with Commission Order No. 2010-250, the  
11 Company includes unbilled volumes in its demand true-up calculations in order to achieve  
12 a better matching of gas cost collections versus actual gas costs in the months they occur.  
13 The design day factor for allocation of demand charges to South Carolina changed from  
14 14.76% to 14.61% effective as of November 1, 2021, due to North Carolina Utilities  
15 Commission ("NCUC") Docket No. G-9 Sub 781. The methodology used to calculate the  
16 design day factor for demand allocation of 14.61% is in compliance with Commission  
17 Order No. 2004-501, dated October 15, 2004. Demand true-up for the Review Period  
18 decreased the over-collection by \$1,744,915.

19 **Negotiated Losses** – In competition with alternate fuels, the Company's GCRM  
20 allows it to maintain its industrial load by selling gas at less than the approved tariff,  
21 resulting in margin losses. During the Review Period there were no negotiated losses, so  
22 there was no effect on the Company's (over)/under-collection.

**Secondary Market Sharing** – Effective with rates approved in Commission Order

No. 2002-761 dated November 1, 2002, the Company credited 75% of the margins from off-system sales and capacity release transactions to the purchased gas deferred account. The remaining 25% was retained by the Company. Additionally, the Order provided capacity release credits and off-system sales would be allocated to South Carolina using the same design day methodology approved for fixed demand costs.

In accordance with NCUC's Order in Docket No. G-9 Sub 682, dated September 29, 2016, Approving Merger Subject to Regulatory Conditions and Code of Conduct regarding the merger of Piedmont and Duke Energy, 100% of margins received by Piedmont from secondary market sales to Duke Energy Carolinas, LLC and Duke Energy Progress, LLC are now credited to the purchased gas deferred gas accounts for the benefit of the ratepayers.

Shared margins and capacity release credits for the Review Period increased the over-collection by \$8,696,285. It should be noted that in compliance with Commission Order No. 95-1461 dated August 22, 1995, the Company is properly reporting capacity release activity. These capacity release credits totaling \$4,962,119 are included in the total of \$8,696,285 listed above for secondary market sharing.

**Weather Normalization** – In compliance with Commission Order No. 95-1649

dated November 7, 1995, the Company began recording in the purchased gas deferred account weather normalization effective for the winter heating season of November through March. The weather normalization adjustment is designed to increase or decrease the margin component of the rate based on a comparison of actual weather conditions during the period, to normal weather conditions. Weather normalization adjustments for

the Review Period decreased the over-collection by \$3,019,323, as a result of warmer than normal weather for the 2021-2022 heating season.

**Uncollectibles** – In Order No. 2006-527 dated October 11, 2006, the Commission approved the Company's request to remove uncollectible gas cost expense from its cost of service and authorized the recovery of these costs through the Company's purchased gas deferred account. Under this revised methodology, the commodity cost of gas portion of uncollectible accounts is now a component of the purchased gas deferred account. The balance of the uncollectible accounts expensed, including the Company's margin, will be recovered through its annual Rate Stabilization Act filing. The uncollectible gas cost adjustment decreased the over-collection during the Review Period by \$237,752.

**Supplier Refunds** – The Company received supplier refunds totaling \$9,945,172 during the Review Period. South Carolina's allocation of these refunds increased the over-collection by \$1,379,178.

**Hedging Activity Transfer** – In Order No. 2006-527, the Commission authorized the Company to transfer the balance of its cumulative hedging gains or losses to the purchased gas deferred account on a monthly basis, effective November 1, 2006. Transfer of the monthly hedging gains and losses to the purchased gas deferred account for the Review Period increased the over-collection by \$1,732,613.

**Other Adjustments** – The Company posted adjustments in the months of July, August and September 2021 to the purchased gas deferred account. The net effect of these adjustments decreased the Company's over-collection by \$3,583. ORS has reviewed and accepts the adjustments made by the Company to the purchased gas deferred account.

**Interest** – In Order No. 2009-579, the Commission ordered that, effective September 1, 2009, the interest rate to calculate (over)/under collection balances to be the rate of interest as of the first day of each month for 10-year United States Government Treasury Bills, plus an all-in spread of 65 basis points (.65 percentage points). It also ordered that interest not be accrued on (over)/under collection balances which exceed \$20 million in the purchased gas deferred account. Total accrued interest for the Review Period decreased the over-collection by \$13,833.

**Q. WHAT IS INCLUDED IN EXHIBIT DFS-2, STORAGE INVENTORY ACTIVITY?**

A. During our examination, the Company provided ORS with detailed inventory calculations of its underground and liquefied natural gas (“LNG”) storage facilities. ORS aggregated the various inventory levels by storage location in total and included a summary of them in Exhibit DFS-2 for Commission consideration.

The Company has contracted with six (6) underground storage facilities. Four (4) of these facilities are on the Transcontinental Gas Pipe Line Company, LLC (“Transco”) System. They include General Storage Service and General Storage Service–Dominion located in Pennsylvania, Washington Storage Service located in Louisiana, and Eminence Storage Service located in Mississippi. The fifth and sixth underground storage facilities are on the Columbia Gas Transmission, LLC (“Columbia Gas”) Transmission System. The fifth is Firm Storage Services, which is owned by Columbia Gas and operated by Columbia Gas Storage, with facilities in Pennsylvania, Virginia, and West Virginia. The sixth is Hardy Storage Company, LLC located in West Virginia, which is jointly owned by Columbia Gas and Piedmont. Exhibit DFS-2, “Total Underground” section, details the inventory activities of these underground facilities in total. The inventory located in the six

(6) underground facilities at the beginning of the Review Period totaled 8,336,710 dekatherms at a total cost of \$19,694,455 for a weighted average cost of \$2.3624 per dekatherm. The net inventory decreased during the Review Period resulting in an ending inventory balance in the underground facilities of 7,775,856 dekatherms at a total cost of \$25,347,244 for a weighted average cost per dekatherm of \$3.2597. During its examination, ORS obtained verification from the storage facility operators of the volumes stored in each of these facilities at the close of the Review Period.

Exhibit DFS-2 also contains a section titled “Total LNG” which is a summary of the various LNG inventories maintained by the Company, including Pine Needle. Pine Needle is an LNG facility located in Guilford County, North Carolina, and is jointly owned by Piedmont, Transco, and several other utilities and/or investors. Inventory is also stored at the Company’s LNG facilities located at LNG-Huntersville near Charlotte, North Carolina, LNG-Bentonville in Four Oaks, North Carolina, and at the recently completed Robeson LNG located in Robeson, North Carolina. Piedmont also has inventory at the Transco LNG facility located in Carlstadt, New Jersey. Piedmont’s records indicated LNG inventory located at these facilities at the beginning of the Review Period totaled 1,777,160 dekatherms at a total cost of \$5,602,794 for a weighted average cost of \$3.1527 per dekatherm. The net inventory decreased during the Review Period resulting in an ending LNG inventory balance for these five facilities of 1,751,569 dekatherms at a total cost of \$7,862,653 for a weighted average cost per dekatherm of \$4.4889. During its examination, ORS verified the calculation of ending inventory balances and the injections and withdrawals to the daily storage activity worksheets for each facility.



**Q. WHAT IS INCLUDED ON EXHIBIT DFS-3, HEDGING ACCOUNT ACTIVITY?**

A. Exhibit DFS-3 details the results of the Company's hedging program for the Review Period. Commission Order No. 2002-223, issued March 26, 2002, approved the Company's experimental natural gas hedging program.

In Order No. 2006-527, effective November 1, 2006, the Commission authorized the Company to transfer the balance of its cumulative hedging gains or losses to the purchased gas deferred account on a monthly basis. Monthly net hedging gains or losses before interest were transferred to the purchased gas deferred account and included as part of the interest calculation. Total hedging activity for the Review Period resulted in an increase in the over-collection in the purchased gas deferred account of \$1,732,613.

As indicated on Exhibit DFS-3, the cumulative loss at the end of the Review Period for the hedging program is \$40,817,103.

**Q. WHAT ARE ORS'S FINDINGS REGARDING PIEDMONT'S PURCHASED GAS DEFERRED ACCOUNT?**

A. Based on our examination, it is the opinion of ORS that the over-collection balance in the purchased gas deferred account on March 31, 2022, of \$5,251,882.02, shown on Company witness Tomlinson's Exhibit\_(MBT-1), is accurately stated.

**Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?**

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, becomes available.

- 1    **Q.     DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**
- 2    A.            Yes, it does.

EXHIBIT DFS-1

PIEDMONT NATURAL GAS COMPANY, INC.  
DOCKET NO. 2022-4-G  
PURCHASED GAS DEFERRED ACCOUNT ANALYSIS SUMMARY  
FOR TWELVE MONTHS ENDED MARCH 31, 2022

Month	2021										2022			Total
	April	May	June	July	August	September	October	November	December	January	February	March		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Beginning Balance	(2,389,100)	(1,666,429)	(524,138)	657,005	1,828,424	2,412,535	4,106,090	4,798,210	4,327,741	2,168,889	(601,003)	(3,651,849)		
Commodity True-Up	244,037	259,534	344,641	(80,397)	(377,965)	572,741	239,079	1,468,165	(575,730)	509,063	1,197,820	124,902	3,925,890	
Demand True-Up	657,926	1,131,519	1,328,743	1,461,752	1,190,763	1,342,434	1,209,090	(971,033)	(733,127)	(2,992,965)	(1,588,265)	(291,922)	1,744,915	
Negotiated Losses	0	0	0	0	0	0	0	0	0	0	0	0	0	
Secondary Market Sharing	(212,149)	(254,872)	(254,471)	(262,307)	(258,777)	(254,960)	(234,162)	(767,262)	(885,306)	(3,148,396)	(1,169,404)	(994,219)	(8,696,285)	
Weather Normalization	(423)	24	223	5	4	14	14	(14,435)	49,287	2,801,025	(1,262,844)	1,446,429	3,019,323	
Uncollectibles	22,642	30,581	35,115	47,080	26,626	33,693	6,907	(2,037)	4,321	8,245	10,245	14,334	237,752	
Supplier Refunds	0	0	(8)	(554)	0	(7,381)	(56,162)	(119,739)	(24,857)	(4,031)	0	(1,166,446)	(1,379,178)	
Hedging Activity Transfer	14,487	(22,425)	(273,218)	394	0	1,182	(480,912)	(72,030)	394	55,562	(234,202)	(721,845)	(1,732,613)	
Other Adjustments	0	0	0	3,532	(1)	52	0	0	0	0	0	0	3,583	
Ending Balance Before Interest	(1,662,580)	(522,068)	656,887	1,826,510	2,409,074	4,100,310	4,789,944	4,319,839	2,162,723	(602,608)	(3,647,653)	(5,240,616)		
Interest	(3,849)	(2,070)	118	1,914	3,461	5,780	8,266	7,902	6,166	1,605	(4,196)	(11,264)	13,833	
Ending Balance	(1,666,429)	(524,138)	657,005	1,828,424	2,412,535	4,106,090	4,798,210	4,327,741	2,168,889	(601,003)	(3,651,849)	(5,251,880)		
Interest Rate	2.280%	2.270%	2.130%	1.850%	1.960%	2.130%	2.230%	2.080%	2.280%	2.460%	2.370%	3.040%		

Purchased Gas Deferred Account (Over)/Under-Collection as of 3/31/22 (\$5,251,880) (1)

(1) - Variance from Exhibit (MBT-1) of \$2.02 is due to rounding

**PIEDMONT NATURAL GAS COMPANY, INC.**  
**DOCKET NO. 2022-4-G**  
**STORAGE INVENTORY ACTIVITY**  
**FOR TWELVE MONTHS ENDED MARCH 31, 2022**

	Total Underground Injections					Total Underground Withdrawals				Total Underground Balance		
	Gross DTs	Used/Injected	Price	Commodity	Injection/Charge	W/D Charge	DTs	Price	Amount	DTs	Amount	Wtd. Cost
	#	#	\$	\$	\$	\$	#	\$	\$	#	\$	\$
Beg. Bal.										8,336,710	19,694,455	2.3624
Apr-21	825,784	(17,875)	2.4101	1,990,235	47,274	0	(507,120)	2.4422	(1,238,508)	8,637,499	20,493,456	2.3726
May-21	2,546,839	(53,753)	2.6162	6,663,030	121,966	0	(85,286)	2.4511	(209,045)	11,045,299	27,069,407	2.4508
Jun-21	2,535,040	(60,449)	2.8493	7,223,104	119,832	0	(192,358)	2.8619	(550,506)	13,327,532	33,861,837	2.5407
Jul-21	1,982,272	(44,211)	3.3652	6,670,794	78,468	0	(144,740)	2.9734	(430,369)	15,120,853	40,180,730	2.6573
Aug-21	2,687,912	(58,765)	3.6756	9,879,609	104,115	0	(285,869)	3.1995	(914,646)	17,464,131	49,249,808	2.8201
Sep-21	1,859,110	(45,119)	4.1624	7,738,365	61,560	0	(160,440)	3.3455	(536,758)	19,117,682	56,512,975	2.9561
Oct-21	2,269,866	(62,829)	5.0389	11,437,734	80,260	0	(371,771)	3.7299	(1,386,669)	20,952,948	66,644,300	3.1807
Nov-21	243,712	(4,699)	5.2625	1,282,533	11,156	0	(1,019,690)	3.3554	(3,421,477)	20,172,271	64,516,512	3.1983
Dec-21	1,096,404	(15,059)	4.3648	4,785,613	57,960	0	(1,859,655)	3.4557	(6,426,325)	19,393,961	62,933,760	3.2450
Jan-22	310,184	(2,996)	4.2140	1,307,101	16,165	0	(5,505,060)	3.2801	(18,057,155)	14,196,089	46,199,871	3.2544
Feb-22	488,679	(5,600)	5.3169	2,598,253	29,140	0	(4,470,840)	3.4611	(15,474,078)	10,208,328	33,353,186	3.2673
Mar-22	366,262	(6,983)	4.3909	1,608,207	20,537	0	(2,791,751)	3.4511	(9,634,686)	7,775,856	25,347,244	3.2597
	17,212,064	(378,338)	3.6709	63,184,578	748,433	0	(17,394,580)	3.3505	(58,280,222)			

	Total LNG Injections					Total LNG Withdrawals				Adjustments To Tank Level		Total LNG Balance		
	Gross DTs	Used/Injected	Price	Commodity	Injection/Charge	W/D Chg/Exp Def	DTs	Price	Amount	DTs	Amount	DTs	Amount	Wtd. Cost
	#	#	\$	\$	\$	\$	#	\$	\$	#	\$	#	\$	\$
Beg. Bal.												1,777,160	5,602,794	3.1527
Apr-21	258,529	(3,332)	2.4142	624,136	4,845	30,186	(243,737)	2.5594	(623,809)	0	0	1,788,620	5,638,152	3.1522
May-21	453,742	(5,751)	2.7189	1,233,671	6,773	73,867	(43,295)	3.3145	(143,501)	0	0	2,193,316	6,808,962	3.1044
Jun-21	445,382	(6,390)	2.8965	1,290,063	7,525	76,644	(48,796)	3.3480	(163,367)	0	0	2,583,512	8,019,827	3.1042
Jul-21	564,890	(6,603)	3.4141	1,928,612	7,776	86,268	(177,803)	3.3715	(599,466)	0	0	2,963,996	9,443,017	3.1859
Aug-21	884,851	(6,603)	3.8092	3,370,602	7,776	293,372	(237,701)	3.5958	(854,722)	0	0	3,604,543	12,260,045	3.4013
Sep-21	668,953	(3,621)	4.4771	2,994,943	4,264	418,317	(75,594)	4.2221	(319,168)	0	0	4,194,281	15,358,401	3.6617
Oct-21	715,693	(3,621)	5.4923	3,930,807	3,113	448,262	(62,641)	4.5830	(287,083)	0	0	4,843,712	19,453,500	4.0162
Nov-21	324,371	0	5.3156	1,724,211	0	492,979	(239,994)	3.9876	(957,000)	0	0	4,928,089	20,713,690	4.2032
Dec-21	439,601	(1,491)	4.3295	1,903,234	1,284	365,997	(421,589)	3.9203	(1,652,765)	0	0	4,944,610	21,331,440	4.3141
Jan-22	91,111	(213)	4.2395	386,263	183	286,049	(2,158,180)	4.6050	(9,938,401)	0	0	2,877,328	12,065,534	4.1933
Feb-22	13,383	(213)	5.2777	70,632	184	117,567	(647,014)	3.8302	(2,478,181)	0	0	2,243,484	9,775,736	4.3574
Mar-22	13,383	(213)	4.3910	58,765	184	139,277	(505,085)	4.1801	(2,111,309)	0	0	1,751,569	7,862,653	4.4889
	4,873,889	(38,051)	4.0042	19,515,939	43,907	2,828,785	(4,861,429)	4.1405	(20,128,772)	0	0			

**PIEDMONT NATURAL GAS COMPANY, INC.**  
**DOCKET NO. 2022-4-G**  
**HEDGING ACCOUNT ACTIVITY**  
**(GAIN)/LOSS RECOGNIZED AND OTHER EXPENSES**  
**FOR TWELVE MONTHS ENDED MARCH 31, 2022**

<b>Month</b>	<b>Net Options Premium</b>	<b>Purchased Options Fees</b>	<b>RMI Fee</b>	<b>Proceeds from Positions</b>	<b>Exercised Options Fees</b>	<b>Net (Gain) or Loss</b>	<b>Cumulative (Gain) or Loss</b>
	\$	\$	\$	\$	\$	\$	\$
Beginning Balance							42,549,716
Apr-21	72,300	1,116	788	(60,060)	343	14,487	42,564,203
May-21	22,440	341	0	(45,640)	434	(22,425)	42,541,778
Jun-21	17,820	279	394	(292,320)	609	(273,218)	42,268,560
Jul-21	0	0	394	0	0	394	42,268,954
Aug-21	0	0	0	0	0	0	42,268,954
Sep-21	0	0	1,182	0	0	1,182	42,270,136
Oct-21	0	0	394	(481,680)	374	(480,912)	41,789,224
Nov-21	0	0	394	(72,520)	96	(72,030)	41,717,194
Dec-21	0	0	394	0	0	394	41,717,588
Jan-22	54,930	238	394	0	0	55,562	41,773,150
Feb-22	0	0	394	(234,930)	334	(234,202)	41,538,948
Mar-22	0	0	394	(722,400)	161	(721,845)	40,817,103
	167,490	1,974	5,122	(1,909,550)	2,351	(1,732,613)	